BEFORE THE FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, DC 20554

IN THE MATTER OF THE FEDERAL COMMUNICATIONS COMMISSION'S NOTICE OF PROPOSED RULEMAKING ADOPTED OCTOBER 12, 2000, AND RELEASED OCTOBER 18, 2000.	**))))))**	**DOCKET NO. FCC 00-199**

COMMENTS OF THE IDAHO PUBLIC UTILITIES COMMISSION

INTRODUCTION

The Idaho Public Utilities Commission (IPUC) submits these comments in response to the Federal Communications Commission's (Commission) Rules of Practice and Procedures, 47 C.F.R. Sections 1.49, 1.415, and 1.419 (1998). The Idaho Public Utilities Commission respectfully submits these comments on the Federal Communications Commission's Notice of Proposed Rulemaking (NPRM) in Docket FCC 00-199 adopted October 12, 2000, and released October 18, 2000.

I. IPUC'S INTEREST

The IPUC regulates the rates and services for telephone operations as set forth in Idaho Code Titles 61 and 62. In 1998 Idaho established a state Universal Service Fund to provide funding assistance to high cost areas. *Idaho Code* § 62-610. Furthermore, Idaho must establish telecommunications services and facilities as required by the public convenience and necessity at just and reasonable rates. *Idaho Code* § 62-610. Idaho has also established a system of accounts. *Idaho Code* §§ 61-524 and 61-525. Accounting records and reporting requirements are important to carry out this duty in Idaho.

II. BACKGROUND

In 1999, the Commission initiated a two-phased comprehensive review of its accounting rules and related reporting requirements for incumbent local exchange carriers (ILECs) to keep pace with changing conditions in a competitive telecommunications industry. In its Report and Order in CC Docket No. 99-253, (Phase 1 Report and Order), adopted on March 2, 2000 and released March 8, 2000, the Commission adopted accounting rule changes and reporting reform measures for the Automated Reporting Management Information System (ARMIS).

In this instant NPRM, the Commission initiates Phase 2 and Phase 3 of its accounting rules and reporting requirements review. The NPRM seeks comment regarding the Commission's proposals to further streamline accounting and reporting requirements in the near-term (Phase 2) and the long-term (Phase 3) as the telecommunications industry moves towards a more competitive environment. The proposals for Phase 2 would eliminate one-fourth of the Class A accounts in the Commission's Uniform System of Accounts (USOA), 47 C.F.R. Part 32, the Commission's affiliate transaction rules, and the expense limits rules. The NPRM streamlining proposals for the largest ILECs eliminate 77 of 296 Class A accounts, the related ARMIS requirements, and data that is less useful and/or obsolete in a competitive environment.

Additionally, the NPRM seeks comment regarding whether the Commission should adopt the United States Telephone Association's (USTA) proposal to further streamline the accounting and ARMIS requirements. The USTA proposes elimination of Class A accounting, the continuing property records (CPR) requirements, forecasts for use in allocating joint costs between regulated and nonregulated activities, and the majority of the ARMIS reports including all state-by-state reporting requirements. Moreover, the NPRM seeks comment regarding whether certain accounts suggested by states should be added to reflect recent technology and regulatory changes.

III. DISCUSSION

The IPUC appreciates the opportunity to comment on this NPRM. In general, the IPUC supports the Commission's principal efforts to streamline its accounting and reporting requirements. The IPUC certainly agrees with the elimination of any unnecessary or overlapping federal and state reporting requirements. To set regulated rates in Idaho, it is important to adequately separate the regulated operations for telephone companies. Therefore, we share the concerns set forth in the comments filed by the National Association of Regulatory Utility Commissioners and strongly support those comments. We reiterate some of these concerns as set forth in our comments below.

A. Reporting Requirements

Our primary interest is to prevent a void in the Commission and Idaho's ability to obtain and rely on accurate information concerning ILEC costs and investments. Particularly, the IPUC cautions that the impact of new technology, changes in the network infrastructure, and changes in the marketplace for telecommunications services warrant reforms that are conducive to the goals of a competitive local exchange market.

To this end, the IPUC discourages eliminating accounting and reporting requirements for the ILECs with a broad stroke. Total Company investment figures, financial statements, and separation factors are the basis of Idaho rates and state Universal Service Fund support. Accounting records and reports reflecting this information must be retained. If the Commission eliminates these reports, the Idaho PUC would need to require the filing of additional reports on Total Company and Idaho-specific information. If other states required similar information for their use in a different format, the filing burden and expense would quickly become greater than it is currently.

Rapid growth in Internet traffic, packet switching, digital subscriber line services, and other services such as unbundled network elements (UNEs) has forced the industry to increasingly rely on the ILEC's network. At the same time, many of these ILECs have increased their operating areas through mergers and acquisitions. New companies are attempting to compete in these markets even though the local exchange markets are not highly competitive. While it is important for the Commission to continue to reduce burdens on the ILECs as the local exchange market transitions to a competitive market, Commission and state monitoring of ILECs costs, investments, and cost allocation practices is also important. If ILECs can strategically shift and recover costs without regulatory oversight, both competition and consumers will be harmed.

Idaho relies substantially on the Commission's Part 32 accounting system and on the information reported in ARMIS.[1] As the Commission moves forward with its efforts to

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1 Recently, the Federal-State Joint Board on Separations adopted a Recommended Decision to freeze separations factors as efforts to bring about comprehensive reform to jurisdictional separations rules continue. *See Jurisdictional Separations Reform and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, *Recommended Decision*, FCC 00J-2, 15 FCC Rcd 13160 (2000). This Recommended Decision, which sets out concerns about cost shifting and the need to prevent recovery of the same costs in both interstate and intrastate jurisdictions, notes that Part 32 is the first step in establishing appropriate interstate and intrastate rates. *Id*. at para. 4.

deregulate and streamline its regulatory requirements, the IPUC urges the Commission to consider the importance of the ILECs' costs and practices on policies that could have a direct effect on competition and consumer prices.

B. Part 32 Accounting Rules

1. Chart of Accounts

Because the IPUC uses operations, corporate, and administrative expense account data in tariffing, Universal Service Fund verification and setting UNE prices, the proposed elimination of this information is problematic for Idaho regulation. We find the USTA’s proposals to eliminate Class A accounting requirements similarly troublesome. The loss of the detail provided in Class A accounting requirements would undermine Idaho's ability to understand the nature of carrier costs. The carrier costs are largely driven and allocated by their network plant investments. Under Class B accounting, very little would be known about these costs. For example, all outside cable and wire investments are contained in one account under Class B accounting. This account does not contain detailed information regarding the construction or makeup of the various types of outside plant. All fiber, copper, aerial, underground, and buried cables would be combined together in one account with poles and conduit. These separate accounts are critical cost components used to establish proper universal service support, UNE, pole attachment, and other rates for ILECs to charge customers for both retail and wholesale services. Idaho relies on the data that carriers report to the Commission and often uses this separate account information in support of such pricing decisions.

The IPUC also believes that the lack of detailed cost data would undermine Idaho's ability to set carrier depreciation rates or the Commission’s life and salvage ranges. This is because the various types of plant inherently have widely diverse life and salvage characteristics. Combining them together would seriously distort the usefulness of the current prescribed Commission ranges and undermine all the programs that rely on them (i.e., universal service cost proxy models, UNE pricing, etc.). Moreover, the Commission and the states would not have cost data available to develop realistic cost models or to even evaluate cost studies prepared by the carriers.

Moreover, the IPUC does not find persuasive USTA’s argument that Class A accounting requirements are too burdensome for the largest ILECs. These carriers already maintain from 2,000 to 3,500 accounts in their own accounting systems. When complying with the

Commission's current Class A accounting requirements, the carriers simply aggregate their own account balances into the approximate 300 accounts of the Class A format. Even the smallest ILECs use Class A accounting, which is a requirement for acquiring Rural Utility Service (RUS) loans. We believe elimination of these requirements could actually increase the burden and costs for ILECs because states like Idaho would replace the Commission reporting requirements with their own. Having only the less detailed accounting records and reported information available, carriers and the Commission may also incur additional costs to audit the records of a company.

2. Additional Accounts Suggested by States

To enable the Commission to maintain an up-to-date accounting system, the accounts suggested by states for new technologies are appropriate and necessary. These accounts will continue to allow the Commission and states to understand the nature of the carrier's investment and ensure that prices are reflective of their actual costs. Moreover, such information will permit the Commission and states to monitor deployment, collocation, and interconnection cooperation issues. The creation of expense and revenue accounts for UNE and interconnection will help states to administer the prices of these services.

3. Additional USTA Proposals

a. Continuing Property Records (CPR)

The IPUC does not endorse the USTA's proposal to eliminate existing CPR requirements. These records are necessary to ensure that the largest and most important accounts - the network plant accounts - accurately reflect those assets actually in service. CPRs also provide data for jurisdictional separations and cost allocations studies. Moreover, these records provide material-only cost information necessary when accounting for transfers, reallocations, and adjustments of plant. If these records are inaccurate, virtually all of the carriers' cost data becomes suspect. Since the existing methodology calculates support based on historical financial information, CPR discrepancies could also have an impact on current levels of rural universal support.

b. Cost Allocations

The IPUC believes that eliminating the "forecast use" rule, which allocates joint investments between the carriers' regulated operations and nonregulated 'upstart' (or new) operations, would result in the over-allocation of nonregulated costs to the carriers' regulated operation. Although the markets for carriers' regulated activities are large, well established, and mature, their nonregulated activities subject to the '"forecast use"' rule are in their infancy. These new "upstart" activities are generally services where the potential for robust competition is greatest. If ILECs have the ability to shift the costs of these new service offerings to their regulated activities, they could allocate almost all of the new investments to the regulated operations for many years even though the investments are primarily made to develop their newer, nonregulated activities. In doing so, competition for these new upstart services may be seriously undermined.

c. Expense Limits

Although the USTA proposes to increase the current expense limit, the IPUC does not believe that circumstances have changed significantly since 1997 to warrant a further increase in the current $2,000 expense limit or to extend the expense limit to all plant asset accounts. However, the IPUC does endorse an increase in the $500 expense limit set for tools and test equipment located in the central office. The tools and test equipment contained in the general support function and that equipment in the central office function are not sufficiently different to warrant different expense limits. Regardless of their physical location, these assets are virtually the same and should be subject to similar expense limits. For this reason, we believe the $2,000 expense limit should be extended to include central office tools and test equipment assets.

The majority of the investment contained in the General Support Computer account is associated with personal computers and peripheral equipment costing less than $2,000 and, in many cases, less than $1,000. Increasing the expense limit for these assets to $2,000 would result in very little, if any, capitalization. Therefore, the IPUC does not believe the existing $500 expense limit should be increased to $2,000 for the computer assets.

d. Affiliate Transactions

The USTA also recommends that the Commission revise section 32.27(d) to decrease the threshold from 50 percent to 25 percent for use of prevailing price in valuing affiliate transactions. Under this proposal, an affiliate (such as a supply company) can conduct up to 75 percent of its business with the ILEC and charge prevailing prices. Volume discounts or other cost savings which the affiliate experiences primarily due to its association with the ILEC will not have to be passed on to the ILEC. If over 50 percent of the affiliate's sales are to the ILEC, the primary purpose of the affiliate is arguably to serve the ILEC. The Commission's current threshold of 50 percent for use of prevailing price in valuing affiliate transactions recognizes that the affiliate exists to serve the ILEC. Therefore, the IPUC does not recommend or support any change in the 50 percent threshold.

C. Streamlined ARMIS Reporting Requirements

The IPUC does not support the USTA's proposal to eliminate practically all current ARMIS reporting requirements for mid-sized carriers. All of the ARMIS reports are necessary to understand the carriers' local exchange and access operations, both financially and technically. The Commission's statutory mandate is to assure a rapid and efficient nationwide telecommunications system to all Americans. The states have other responsibilities that in many ways mirror the Commission's responsibilities. Without certain basic information, the Commission and the states will be hampered in carrying out their responsibilities.

The Commission sets forth the basic information it will require from carriers in its accounting, service quality, and network infrastructure rules and orders. ARMIS makes this basic information public. ARMIS reporting does not present a significant burden to the carriers. ARMIS does not make public any proprietary data and only requires carriers to provide information on certain data otherwise required by Commission rules. Additionally, ARMIS data is collected in a uniform and standard format so that the states and the public have efficient and reliable access to critical data needed to establish regulated rates for services. This data is necessary to assess service rates, UNE prices, interconnection rates, depreciation rates, universal service support, service quality, network functionality, capabilities, and reliability. The carriers are required by most states to maintain this data on a state basis. Thus, no additional burden is placed on the carrier to maintain the state data, and the burden to report it is minimal.

If enacted, USTA's proposal to eliminate state-by-state ARMIS information would undermine the states' ability to use any data provided in ARMIS. It would harm the Commission's ability to monitor and investigate ILEC activities, especially in cases where a targeted investigation may be warranted. ARMIS was designed to accommodate both Commission and state needs. To eliminate the information provided on a state basis would undermine the goals that ARMIS sought to achieve.

On the other hand, the IPUC fully supports the Commission's proposal to eliminate the collection of obsolete data and to update its ARMIS reports to obtain information on new technologies that are critical components of the carrier's network infrastructure. This data would address upgrades and investments in switching and transmission capacity. The information that the Commission proposes to collect is basic to the Commission's responsibilities to assure the integrity of the country's network and should impose minimal burden on the carriers. The elimination of data (approximately half of what is collected today) will further ease the data collection burden on the carrier.

In its *Accounting Reductions Report and Order* in CC Docket No. 98-11 and its *ARMIS Reductions Report and Order* in CC Docket No. 98-117, both adopted May 18, 1999 and released June 30, 1999, the Commission reduced accounting and reporting requirements for mid-size ILECs by allowing them to report on a Class B level. These streamlining measures, combined with the Class A reporting reform measures and the revenue threshold increase to $200 million proposed in the instant NPRM, appear to be more than adequate relief measures for mid-size ILECs at this time. The IPUC does not believe that any further reporting relief is needed.

IV. CONCLUSION

While the Idaho Public Utilities Commission applauds the Commission's continued efforts to streamline accounting and reporting requirements in line with the changing telecommunications environment, we take issue with several of the USTA proposals. First, the proposal to eliminate Class A accounting requirements will result in a lack of detailed data for accounts that comprise the major portion of an ILEC's investment (outside plant cable accounts, switching, and circuit). This dearth of information will make it more onerous for states to evaluate ILEC cost studies prepared for determining universal support, UNE prices, and interconnection prices.

Second, we do not support the proposals that eliminate cost allocations, affiliate transactions, expense limits, and continuing property records reporting requirements. The "forecast use" rule is critical for allocating costs fairly between the ILECs' regulated operations and the nonregulated "startup" operations because it is based on the cost causative principle. Elimination of this rule could result in the ILEC allocating virtually all of the new investments to the regulated operations even though the investments are being made primarily to develop the new, nonregulated activities. Additionally, we believe the Commission's current 50 percent threshold when using the prevailing price in valuing affiliate transactions adequately recognizes that the affiliate exists to serve the ILEC. Accordingly, a decrease in the threshold makes little sense.

As for the existing $2,000 expense limit for certain general support assets, we believe circumstances have not significantly changed since 1997 to warrant an increase. On the other hand, there is little difference between the general support function equipment and the central office function equipment to warrant different expense limits. However, the assets comprising the General Support Computer account often cost less than $1,000. Thus, an increase in the $500 threshold would essentially eliminate the account.

The IPUC does not support the elimination of CPR requirements. Inaccurate CPRs could impact current levels of universal support since the existing methodology calculates support based on historical financial information. On a forward-looking basis, interstate universal service support for nonrural ILECs may be affected if the proxy model utilizes historical relationships to determine forward-looking expenses.

Finally, the USTA's proposals to eliminate practically all current reporting requirements would seriously inhibit the states' use of any data provided in ARMIS. This information represents our only public source of accounting information utilized in establishing UNE prices, interconnection rates, universal service support, and accessing service quality trends, network functionality, capabilities, and reliability. For the mid-sized ILECs, the IPUC believes that the reduced accounting and reporting requirements made in the Accounting Reductions Order and the ARMIS Reductions Order, combined with the additional Class A reporting reform measures and the proposed increase in the revenue threshold to $200 million, appear to be more than adequate relief measures for mid-sized ILECs at this time. Further measures could increase the costs for the ILECs as additional state reporting requirements are required to replace the uniform Commission requirements and reports.

The IPUC supports the Commission's proposal to eliminate the collection of obsolete data and to update its ARMIS reports to obtain information on new technologies that are critical components of the ILEC's network infrastructure. The proposal will eliminate approximately half the data collected today and will further ease the data collection burden on the ILEC.

Respectfully submitted this 21st day of December 2000.

Lisa D. Nordstrom

Lisa D. Nordstrom
Deputy Attorney General
Idaho Bar No. 5733
Idaho Public Utilities Commission
PO Box 38720
Boise, ID 83720-0074
(208) 334-0314
e-mail lnordst@puc.state.id.us

Express Mail:

472 W. Washington St.
Boise, ID 83702-5983

Technical Staff: Terri Carlock
(208) 334-0356
e-mail tcaloc@puc.state.id.us

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